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FOR IMMEDIATE RELEASE

September 15, 2005

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## Johnson: Hurricane Tax Relief Bill Passes House

### *Tax Relief for Victims, Incentives for Charitable Giving*

WASHINGTON, DC – Congresswoman Nancy Johnson today applauded House passage of a bipartisan bill providing tax relief to hurricane victims and encouraging Americans to continue their unprecedented charitable giving to aid relief efforts.

**“Families affected by Hurricane Katrina are still in need of our help,” said Johnson, a senior member of the tax-writing House Ways and Means Committee. “Families devastated by the hurricane need our help and our generosity, not unreasonable tax rules and deadlines that will only make it more difficult to rebuild their lives. This important, bipartisan bill lifts tax burdens on these families and gives them new financial tools to get back on their feet.”**

**“In addition, the American people have rushed to provide housing to evacuees and cash donations to charities large and small. This bill recognizes their generosity and encourages them to keep giving to support those in need,” Johnson concluded.**

The “Katrina Emergency Tax Relief Act of 2005” passed the House without opposition today. This bill provides increased tax relief for hurricane victims, their families, and the generous Americans who are providing cash assistance and charitable donations.

Below is a summary of the bill’s provisions to aid storm victims.

#### **RELIEF FOR INDIVIDUALS AFFECTED BY HURRICANE KATRINA**

- **Holds families harmless against the loss of tax benefits due to temporary relocations.** Damage caused by the hurricane has displaced hundreds of thousands of individuals, who are temporarily living with family, friends or good samaritans. Under current law, a prolonged change in their living situation could affect their eligibility for various tax benefits. The bill ensures these families remain eligible for tax benefits such as the Earned Income Tax Credit and dependency exemptions and child credits.
- **Ensures that families are not taxed on forgiven debt in the next two years,** such as a mortgage cancellation. Current law would treat forgiven debt as taxable income.

## Katrina Tax Relief/2

- **Allows full deductibility of personal casualty losses.** Current law allows deduction of losses only when they exceed 10 percent of income and have a minimum value of \$100.
- **Provides tax relief for housing assistance to dislocated persons.** The bill creates a special tax deduction for individuals who provide rent-free housing to dislocated persons for at least 60 days. The deduction is \$500 for each dislocated person housed in the individual's principal residence (up to a maximum of \$2,000).
- **Waives 10-percent tax on early distributions from IRAs and pensions for individuals affected by the hurricane.** In order to discourage individuals withdrawing funds before retirement, distributions from IRAs and pensions are subject to a 10 percent penalty if they are made before a certain age. The bill allows eligible individuals to withdraw a maximum of \$100,000 from their IRAs and pensions without penalty.
- **Extension of the Work Opportunity Tax Credit.** Under current law, employers are allowed to claim the Work Opportunity Tax Credit (WOTC) if they hire individuals who face barriers to employment. The bill allows employers in the disaster area to claim the WOTC for two years if they hire individuals who lived in the disaster area prior to the hurricane.
- **Provides a longer period of time (five years) to replace damaged property without incurring tax.** Current law deems insurance proceeds to replace property taxable if not used within two years for businesses and four years for personal property.
- **Expands the availability of below-market mortgages in the disaster areas.** Current law restricts these favorable mortgages to first-time homebuyers. The bill waives this requirement for hurricane victims whose homes were destroyed.

## INCENTIVES FOR CHARITABLE DONATIONS RELATED TO HURRICANE KATRINA

- **Encourages cash donations by individuals.** Under current law, individuals may deduct charitable donations up to 50 percent of their adjusted gross income. Deductions for charitable donations are further limited by the phaseout of itemized deductions. The bill lifts these restrictions for donations related to Hurricane Katrina.
- **Encourages cash donations by corporations.** Under current law, corporations may deduct charitable donations up to 10 percent of their taxable income. The bill waives the 10-percent income limitation for cash donations related to Hurricane Katrina if the donation is made before January 2006.
- **Increases the mileage reimbursement rate for charitable donation deductions.** Individuals may claim a tax deduction for the costs associated with using a personal vehicle for charitable work. The deduction is calculated by using a mileage reimbursement rate of 14 cents-per-gallon. The reimbursement rate for business use is set periodically through IRS guidance and currently stands at 48.5 cents-per-gallon. The bill sets the mileage reimbursement rate for charitable contributions at 70 percent of the standard business mileage rate.